

CREDIT OPINION

9 January 2024

Update



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RATINGS

Atrium Ljungberg AB

Domicile	Sweden
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Atrium Ljungberg AB

Update following change in outlook

Summary

On 19 December 2023, we affirmed [Atrium Ljungberg AB](#)'s Baa2 issuer rating and the negative outlook. The affirmation of Atrium's Baa2 rating with a negative outlook considers good rental growth, a solid liquidity profile with good access to bank financing and bond markets but also reflects weakening EBITDA interest coverage. While Atrium's debt to asset ratio is still in line with the requirements for the Baa2 rating category, an improvement in the interest coverage ratio requires further cash generating measures such as asset disposals and continued positive rental growth to mitigate continued negative pressure on the rating. The affirmation of the Baa2 rating continues to reflect Atrium's good asset quality, notably its modern and high-quality SEK 56 billion office and retail property portfolio in attractive locations in Stockholm, Uppsala, Gothenburg and Malmö.

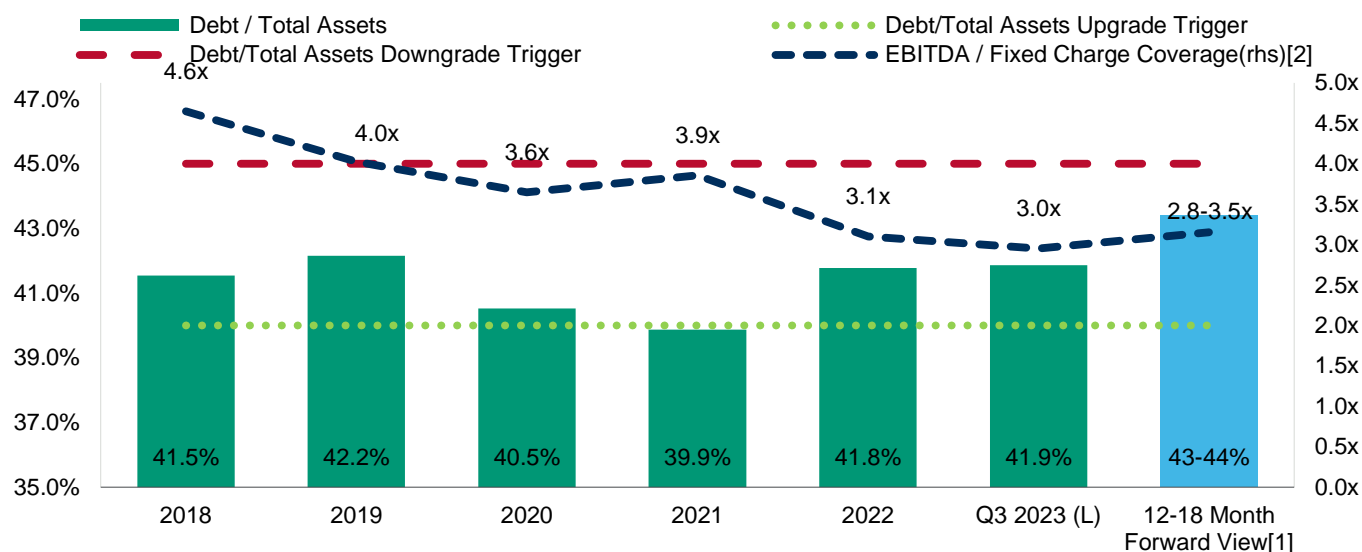
Atrium's Baa2 issuer rating also reflects its strong market position as one of the leading commercial real estate companies in [Sweden](#) (Aaa stable); its solid portfolio of mostly large office and retail mixed-use estates, concentrated in Stockholm, which is well positioned for sustainable long-term growth with a controlled development programme; moderate leverage of 41.9% as of September 2023; and adequate liquidity for the next 18 months and a comfortable level of unencumbered assets. Also, the company has changed the dividend policy to one-third of the profit from property management will be distributed instead of 48-59% which is positive.

Counterbalancing these strengths is the competitive environment for shopping centers and its broader retail segment, combined with the increasing penetration of e-commerce; high net debt/EBITDA because of significant project development; the company's short-dated debt maturity profile of 3.8 years; a significant but reduced reliance on commercial paper in its funding mix (4% of total debt as of September 2023, down from 26% in December 2016; and risk to financial metrics especially EBITDA interest coverage and effective leverage stemming from rapidly rising rates, the need to refinance a significant portion of its debt in the next few years, and increased property yields.

Exhibit 1

Debt/gross assets is in line with our expectation

Moody's-adjusted debt/gross assets and EBITDA/fixed-charge coverage



[1] This represents Moody's forward view, not the view of the issuer.

[2] Fixed charges include capitalised interest. Explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, revised August 2018.

Sources: Moody's Financial Metrics™ and Moody's Investors Service

Credit strengths

- » Leading Swedish real estate company with a portfolio that is well positioned for long-term growth
- » Good operational performance, which is expected to continue over the coming quarters
- » The company's controlled development programme and strong pipeline to enhance value
- » Maintained moderate asset based leverage because of possible credit strengthening activities such as divestments, reduced dividend, reduced capex or equity injection
- » Changed dividend policy to become more conservative

Credit challenges

- » Further risks at the macro level driven by inflation and challenging capital market conditions, potentially leading to lower market values and higher cost of funding
- » Presence of controlling shareholders, which could hamper access to equity capital
- » Significant exposure to retail
- » Refinancing of a sizeable share of debt that exposes the company to rising interest rates in absence of significant measures that would lead to a debt reduction

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Rating outlook

The negative outlook reflects the risk of a downgrade in case Atrium fails to take the actions necessary to offset the impact of the deteriorating financial market environment on the back of higher interest rates, which will make it challenging for Atrium to retain credit metrics, in particular its EBITDA interest cover commensurate with a Baa2 rating at around 3.0x. Despite this risk we expect Atrium might have the capacity to maintain its effective leverage close to 40% through various credit strengthening actions in combination with the completion of project developments. We expect the indexation in rent contracts will improve net debt/EBITDA towards 11-13x. We also expect the company to maintain an adequate liquidity, whereby cash sources cover uses for the next 18 months.

Factors that could lead to an upgrade

- » Maintains a Moody's-adjusted gross debt/total assets well below 40%, with financial policies that support that level, together with a declining trend of Moody's-adjusted net debt to EBITDA
- » Fixed-charge coverage above 4.0x on a sustained basis
- » Considerably reduced reliance on short-term funding and significantly extending debt maturities

Factors that could lead to a downgrade

- » A material deterioration in operating and financial performance or a sharp decline in property market fundamentals
- » Moody's-adjusted leverage moving towards 45% or failure to improve net debt to EBITDA from current levels or Moody's adjusted fixed-charge coverage well below 3.0x
- » Continued heavy reliance on short-term funding, particularly if no longer fully backed by undrawn long-dated credit facilities

Key indicators

Exhibit 2

Atrium Ljungberg AB

	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	Q3 2023 (L)	12-18 Month Forward View[1]
Total Assets (SEK Billion)	45.5	51.0	49.6	54.1	63.8	62.2	56.6-59.5
Unencumbered Assets %	42.1%	46.5%	46.3%	49.1%	57.5%	57.0%	56-57%
Debt / Total Assets	41.5%	42.2%	40.5%	39.9%	41.8%	41.9%	43-44%
Net Debt / EBITDA	11.9x	12.8x	13.4x	13.4x	15.7x	13.2x	11-13x
Secured Debt / Total Assets	20.0%	17.8%	13.9%	10.1%	12.3%	14.6%	16-20%
EBITDA / Fixed Charge Coverage[2]	4.6x	4.0x	3.6x	3.9x	3.1x	3.0x	2.8-3.5x

[1] This represents Moody's forward view, not the view of the issuer.

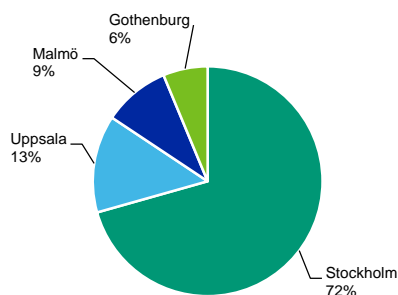
Source: Moody's Financial Metrics™

Profile

Atrium Ljungberg AB is a real estate company headquartered and listed in Stockholm with a market capitalisation of SEK30.5 billion as of 15 December 2023. The company owns, develops and manages a SEK56 billion retail- and office-focused portfolio across Sweden's major cities.

Exhibit 3

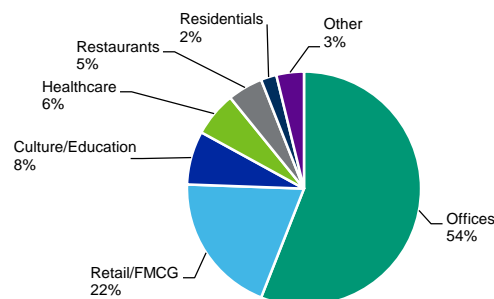
Exposure to Sweden's four largest cities Rental value as of September 2023



Source: Atrium Ljungberg

Exhibit 4

76% exposure to offices and retail/FMCG* Contracted annual rent, September 2023 (excluding project properties)



*FMCG = fast-moving consumer goods.

Source: Atrium Ljungberg

Detailed credit considerations

Leading Swedish real estate company with stable portfolio, well positioned for long-term growth

Atrium Ljungberg owns a SEK 56 billion portfolio across Sweden's four largest and fastest-growing cities. Its 75 properties spanning more than 945 thousand square metres (sqm) are 93% occupied and generated SEK 2.78 billion in annual rent for the twelve months ending on September 30, 2023.

The company focuses on the long-term ownership and development of large mixed-use districts within cities. Most of its mixed-use estates are office- and retail-led, but it also owns residential, cultural and educational facilities. Atrium Ljungberg's pure retail assets consisting of clothing and fashion exposure is 13% of the sectoral mix. The retail sector remains under pressure from online growth and because of ongoing structural changes in retail. Dominant shopping centres will benefit from sustained demand from tenants, but secondary shopping centres, especially in secondary locations, will suffer declining footfall, falling retail sales and further value declines. In Sweden, the share of e-commerce of total sales increased over the past few years and the total market share was 15% as of 2022. The dynamics in the retail segment have been altered by the effect of the coronavirus pandemic, adding to the previously existing challenges. The negative impact of the pandemic shock has been more pronounced for [nonfood and apparel](#) sub-segments, while [food and grocery](#) retailers have been more insulated.

Atrium Ljungberg has three regional retail hubs, Sickla in the greater Stockholm area, Uppsala and Mobilia in Malmö. The retail part in Atrium Ljungberg's portfolio is not a pure shopping centre setup with the exception of Mobilia, but it is rather mixed-use estates, which benefit from footfall from both the office estates during working hours and residential estates after working hours.

Atrium Ljungberg's properties are in well-connected locations and provide good services and facilities. The company will invest around SEK 2.3-2.5 billion per annum over the next two years on redevelopment and refurbishment projects within its existing portfolio that we believe will enhance the portfolio's overall value, however, this also reduces its ability to reduce debt considerably.

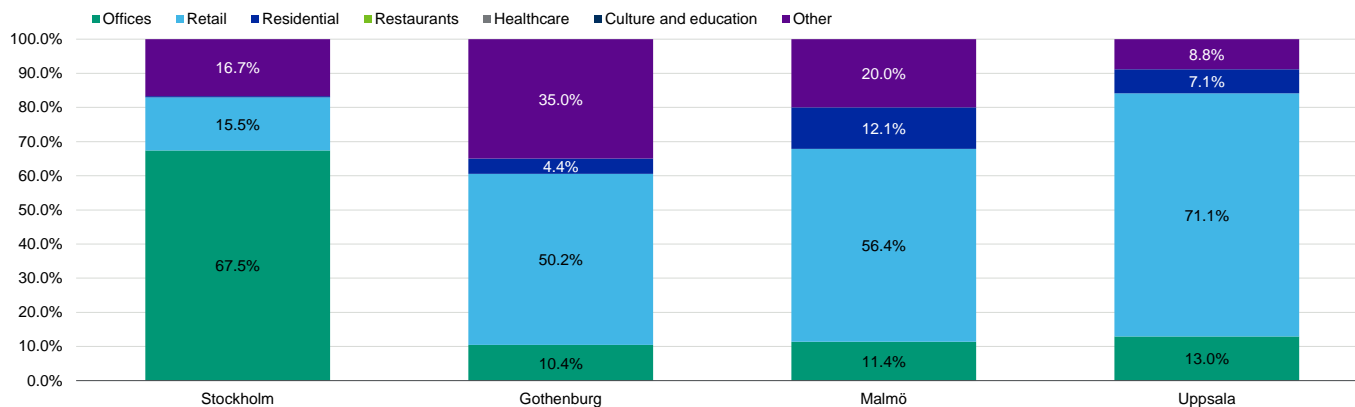
Several positive aspects to Atrium Ljungberg's strategy of controlling large estates will help sustain cash flow and asset values over the longer term. Control over large estates provides greater flexibility to create the right mix between retail/leisure, office and residential in responding to ever-changing market demands. In addition, critical mass in certain locations puts the company in a better position to work with local municipalities through the often long and difficult planning process that is a key driver of value.

An inevitable consequence of the company's approach is a higher micro-location concentration than we typically see with other real estate companies. However, this concentration risk is largely offset by the company's focus Sweden's four largest cities and especially Stockholm.

Exhibit 5

Good mix across asset types

Share of rental value per location as of September 2023, excluding projects



Excludes garage and other space.

"Other" includes healthcare, culture, education and restaurants.

Source: Atrium Ljungberg

Another consequence of the company's strategy is the higher concentration of its office portfolio in inner city and central districts. This exposes the company to the risk that values of less central office locations (i.e. central districts outside of inner city/CBD) tend to underperform in a downturn. As of 30 September 2023, average prime office yields in Stockholm in central locations were 3.5%, compared with a historical eight-year high of 5.6%, while the average prime office yields for less central Stockholm offices were between 4.75% and 6.5% compared with an eight-year high of 6.9%. Rental growth for central Stockholm offices has outperformed less central locations over the past five years, with an 8.0% compound annual growth rate (CAGR) compared with around 3.7% for less central locations.¹

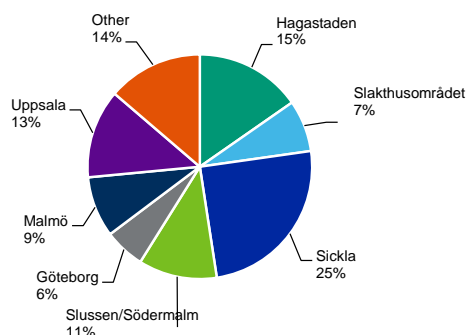
We are comfortable with the company's 80% concentration in Stockholm, which generates around a third of Sweden's GDP, because we do not believe this concentration will lead to a significant divergence from overall economic and property trends. Stockholm is also likely to outperform other Swedish regions in respect of population and economic growth. Stockholm is one of Sweden's strongest property markets and benefits from diverse corporate demand for office space. It is also Sweden's largest and most liquid commercial real estate investment market, attracting 26% of the €4.9 billion investment volume YTD September 2023.² Stockholm also attracts consumers with disposable incomes above the national average that will help sustain the company's shopping centres as an attractive place for retailers to locate.

The company has SEK 2.8 billion in annual rent and an average remaining lease length of around 4.5 years as of September 2023 spread across around 1,486 contracts that are well diversified across industries. The 10 largest tenants account for 20% of the company's rental income. Positively, around 7% of rent is from government-related entities that are ultimately the credit risk of the government of Sweden. Around 12% of the annual contract value will be renegotiated in 2024. We expect the company to maintain its strong reletting record and keep its occupancy rate around 92%-93%.

Exhibit 6

Four largest clusters

Rental value, excluding projects, as of September 2023



Source: Company data

Exhibit 7

Description of five largest clusters

	Property Description
Sickla	The estate represents 26% of total rental value. The shopping area has 143 stores spanning 112,000 m ² attracting 10 million visitors annually and generates more than SEK 3 billion in retail sales. The office area spans 168,500 m ² .
Gränbystaden	A retail-centric portfolio in Uppsala spanning 105,500 m ² and representing 12% of total rental value. It consists of 160 stores with SEK 2.9 billion in sales.
Kista	A northern district in Stockholm containing a large cluster of ITC (Information, technology and communication) companies. Atrium Ljungberg's letting area span 37,600 m ² and represents 4% of total rental value. Tenants include IBM, Fujitsu Sweden, KTH Royal Institute of Technology and Stockholm University.
Mobilia	A vibrant city district located in Malmö's southern part. The portfolio spans 86,400 m ² representing 9% of total rental value.

Source: Company data

Difficult property market fundamentals a potential challenge for Atrium's leverage

Atrium Ljungberg reported a 10.9% like-for-like rental growth January to September 2023 compared to 3.9% in 2022, with the office and retail portfolios demonstrating growth of 8.9% and 12.7%, respectively. The impact of the pandemic weighed on the operating performance in 2020 and 2021, but the office part of the portfolio to some extent balanced the negative pressure arising from the downturn in retail. As inflation increased in 2022 (8.1% in 2022 compared with 4.5% in 2021), property companies have benefited from rental income increases through significant increases driven by indexation we expect this to soften over the next 12-18 months as the rapid pace of inflation is now declining. However, property yields have continued to increase in 2022 and 2023. Yield decompression implies fair value decline on properties, and therefore effective leverage. We expect values to drop further for real estate companies throughout 2023, with leverage increasing across the sector.

Atrium's financial policy is to keep its gearing ratio, as measured by debt/fair value of investment properties, below 45%. Moody's-adjusted gross debt/assets was 41.9% as of September 2023, and we expect the company to maintain its established track record of keeping the leverage within the range of 42%-44%. We expect the company to take measures to maintain this effective leverage even if market values fall by in general 10% in the market. Changed dividend policy to become more conservative is positive but still continued dividend and development capital spending, which might make it more challenging for the company to reduce debt. Failure for the company to achieve debt reduction and improving interest coverage and leverage would create further negative pressure on the Baa2 rating. Expected value decline of around 10% implies a risk that the company will be at the higher end of this range. However, Atrium's rating of Baa2 also incorporates the expectation that the company will take action to be able to maintain the current 41.8% effective leverage.

Net debt/EBITDA has declined significantly in 2023 to 13.2x as of September 2023 from 15.7x in 2022, reflecting indexation and higher cashflow generation and we expect net debt/EBITDA to hover around 12x-13x over the next 12-18 months as we expect the company to continue to pass on inflation to tenants.

Strain on fixed-charge coverage because of rising rates

The rapid increase in interest rates and subsequently challenging capital market conditions with widening credit spreads will continue to significantly increase funding costs. Overall, the refinancing risk in the Nordic real estate sector has significantly increased leaving public bond markets largely unattractive, and we hence expect companies, including Atrium, to revert to secured bank financing. While we believe that bank financing remains a credible refinancing option at lower costs compared with bond issuances, it will not shield Atrium from rising interest costs. As a result, we expect Atrium's EBITDA interest coverage to be under pressure to fall from an estimated 2.8-3.5x in the next 18 months. This is because about 55% (2024: 13%, 2025: 27% and 2026: 15%), equal to SEK13.6 billion, of Atrium's total debt will be maturing in the next three years and will have to be refinanced at a higher cost.

Operationally, Atrium has performed well, with rental income increasing by 10.9% on a like-for-like basis and net-lettings rising by SEK 70 million year-to-date September 2023. We expect operating performance to remain solid in the first quarter of 2024 and

over the coming quarters with further net rental growth, because of the existence of inflation-linked rents in a significant part of the portfolio and the company's ability to renegotiate rents, and as project developments start generating rental revenue.

The fixed-charge coverage is currently at solid 3.0x, but we expect a decline following higher cost of funding over the next 12-18 months to 2.8x. The Baa2 rating still incorporates the expectation that Atrium has the capacity to manage its interest exposure through interest swaps and completed development projects which will gradually improve its fixed-charge coverage in a way that EBITDA interest coverage will over time remain around 3.0x.

Controlled development programme with strong pipeline will enhance value

The company's SEK 7.2 billion (SEK4.4 billion remaining to be spent) development pipeline of ongoing projects is high at around 12% of total assets. In addition, the company plans for longer-term SEK 32 billion of potential development projects. Investments in new residential, office and retail space are likely to increase footfall and make its large estates more attractive to potential tenants.

We expect the company to maintain its roughly 2%-3% exposure to residential properties over the next few years, but believe that the asset class diversification benefit is higher than what the 2%-3% exposure suggests. We expect the company to increasingly develop and sell residential units into the undersupplied housing market, and to generally only keep residential units it wants to rent or which are designated as rental stock under planning regulations.

The company wholly owns TL Bygg, a building contractor with 107 employees and around SEK 930 million in annual sales that is experienced in costing, purchasing and project management. TL Bygg performs work for both Atrium Ljungberg and external third parties. Atrium Ljungberg provides parent guarantees to TL Bygg that are normally 10% of the contract amount during construction, which fall to 5% during the subsequent five-year warranty period.

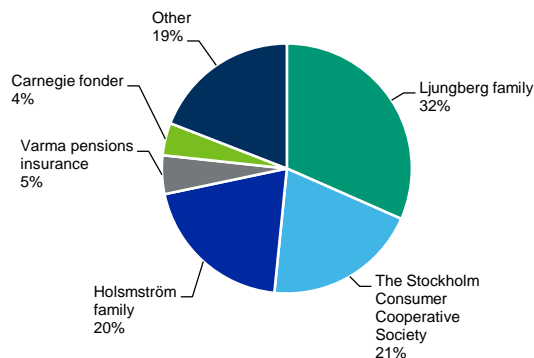
We believe TL Bygg provides Atrium Ljungberg with valuable in-house expertise in planning and executing its development projects, helping it to extract maximum value from its portfolio. We expect the company to continue to manage TL Bygg in a disciplined and controlled manner, and to not take on risks with the potential to create a significant financial liability for the whole group.

Controlling shareholders contribute to stability but could hamper access to equity capital

We believe the three largest shareholders, who together control around 72% of the company's votes, contribute to the company's stability and allow management the time and space to build long-term value. Furthermore, we believe the controlling shareholders are a key influence in keeping the company's leverage well below most of its Swedish real estate peers.

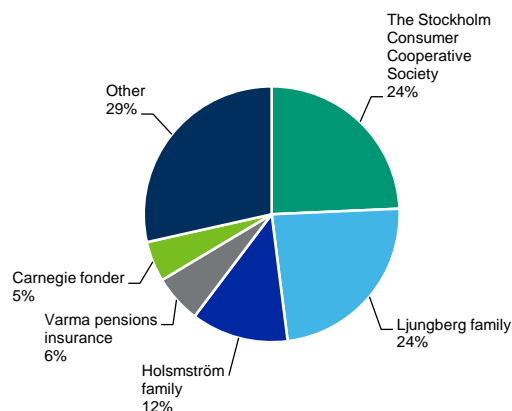
Counterbalancing these positives is our view that the current shareholder structure somewhat limits liquidity because it reduces the free float and may make it more difficult to raise equity if needed. However, unlike real estate investment trusts (REITs) it has no legal obligation to pay a high proportion in dividends. This gives the company more leeway to use funds from operations to reduce leverage if needed.

Exhibit 8
Share of votes
As of September 2023



Source: Company data

Exhibit 9
Share of capital
As of September 2023



Source: Company data

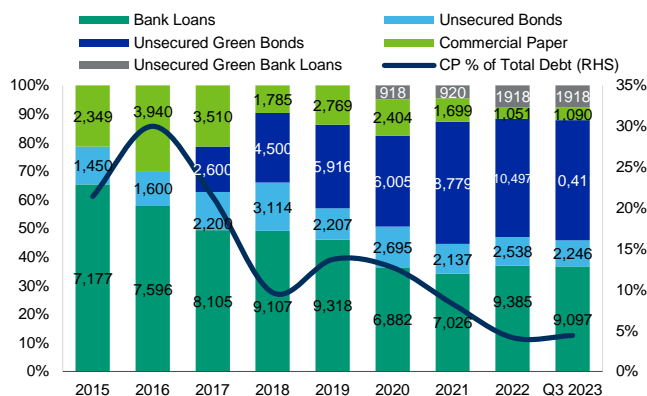
Short-dated debt maturity profile and heavy reliance on short-term debt

The company's average debt maturity was 3.8 years as of 30 September 2023, up from three years in 2013, somewhat dragged down by the 4% reliance on commercial paper in its funding mix. In 2023, 10.7% of its debt will mature, and 13% will mature in 2024 - with a sizeable refinancing wall of 27% in 2025 which we expect will be taken care of proactively. Positively, the company's SEK 5.0 billion commercial paper programme is fully backed by undrawn revolving credit facilities (RCFs) with a staggered maturity profile until 2027. The average cost of debt was 2.3% as of September 2023.

Secured bank lending amounts to 37% of the company's outstanding debt. For the most part, it contains cross default provisions and benefits from parent guarantees.

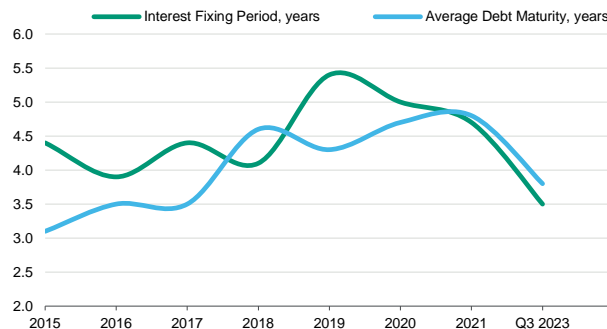
The company's average interest rate fixing period is 3.5 years. As of 30 September 2023, it held SEK 21.1 billion in interest and currency swaps, which covered 85% of outstanding debt, with various maturity dates until 2037.

Exhibit 10
Reliance on commercial paper has reduced (4% of total debt as of September 2023)
Debt structure, 2015-Q3 2023



Source: Atrium Ljungberg

Exhibit 11
Average debt maturity declined in 2023, expected to improve as 2025 maturities are refinanced



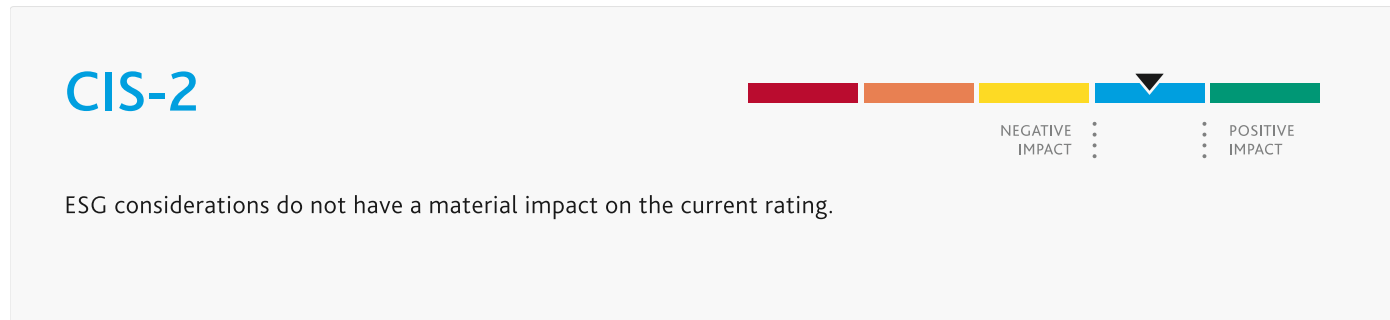
Source: Company reporting

ESG considerations

Atrium Ljungberg AB's ESG credit impact score is CIS-2

Exhibit 12

ESG credit impact score

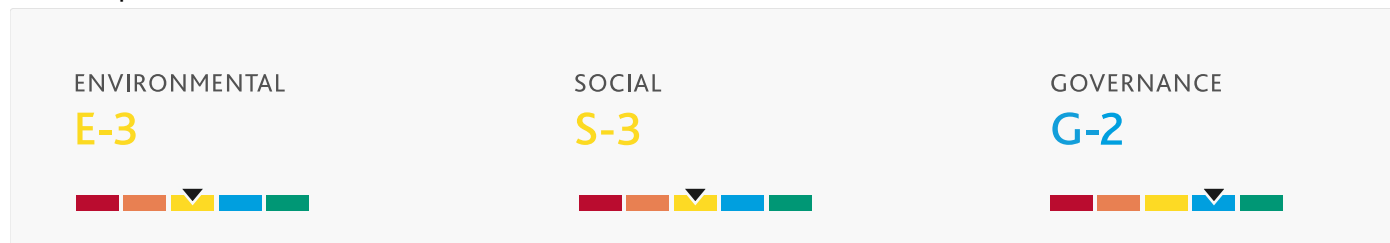


Source: Moody's Investors Service

ESG considerations are not material to the rating (**CIS-2**) on Atrium Ljungberg. This reflects the company's moderate financial policies which enables it to manage exposure towards environmental and social risk.

Exhibit 13

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Atrium Ljungberg's exposure towards carbon transition risk is limited and in line with most of the peers in the real estate industry in the Nordics. The company's has a development pipeline of ongoing projects that is high at around 11% of total assets which enables the company to improve /upgrade the energy performance. The company target to achieve climate neutral operations by 2030. At the end of 2021, 96% of Atrium Ljungberg's letting are was certified according to BREEAM for office properties and for residentials Miljöbyggnad (Sweden Green Building Council's Environmental Building certification). The goal is to certify 100%.

Social

S-3: credit exposure to social considerations is limited. Tenants demand for Atrium Ljungberg's properties is vulnerable to increasing hybrid-working and an accelerated shift towards ecommerce. We expect companies with modern and environmental friendly properties to be less challenged by structural changes. Increasing interest rates and inflation can effect households affordability and demand for Atrium Ljungberg's residentials.

Governance

G-3: Credit exposure to governance risk is limited and reflects concentrated ownership, low investments in JV/associated companies and prudent financial policy. The score also reflects the strong execution when it comes to its strategy; ownership and development of large mixed-use estates/districts that are office- and retail-led but also includes residentials within the four largest cities in Sweden.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

The company has adequate liquidity, underpinned by:

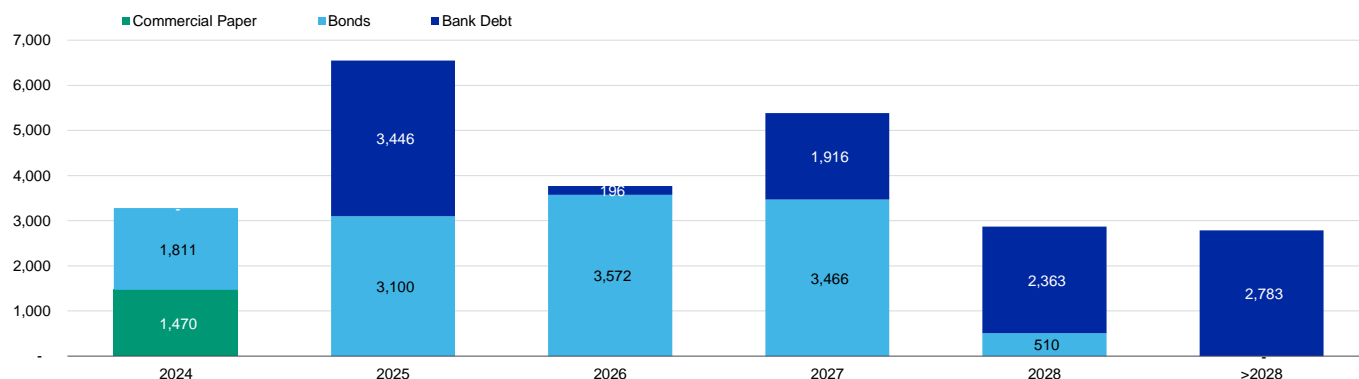
- » Expected cash position of SEK 300 million at 31 December 2023
- » SEK 300 million of an undrawn committed on-demand overdraft credit facility
- » SEK 7.6 billion of undrawn RCFs, mainly backing its commercial paper programme but which could be used for general corporate purposes. The RCFs are spread across several facilities with maturities between November 2025 and June 2027
- » SEK 35.5 billion pool of unencumbered assets as of the end of September 2023

We view the continued decrease in the company's short-term funding as credit positive as it otherwise is a potential threat to liquidity because it increases the duration mismatch between funding sources and the long-term nature of real estate assets. Moreover, companies with a high proportion of short-term debt are more vulnerable to instability in capital and lending markets, and more quickly affected by a change of sentiment towards the cyclical real estate sector. However, the long-dated RCFs with ample covenant headroom provide a backstop against the unlikely risk that the company could struggle to roll over its commercial paper. We expect the company to continue to rely on long-term sources of funding to a greater extent. We see the Baa score for liquidity and access to capital as strongly positioned.

We expect the major demands on cash from operations in the next 12-18 months to come from capital spending on redevelopment and refurbishment of properties. Other than rolling over the SEK 450 million of commercial paper outstanding, the company will need to refinance SEK 2.2 billion of bonds maturing in the next 12 months.

Exhibit 14

Front-loaded debt maturity structure Debt maturities as of December 2023, SEK million



Source: Atrium Ljungberg

Exhibit 15

Ample headroom under the RCF and bank loan covenants Atrium Ljungberg AB

	Covenant	Level as of September 2023	Headroom under the covenant
Interest Coverage Ratio, termination rights	1.5x - 1.75x	3.5x	215%
Equity / Assets ratio, %	25% - 30%	45.1%	164%
Leverage at property level (individual loans limited of maximum LTV)	65% - 75%	41.80%	167%

Source: Atrium Ljungberg

Methodology and scorecard

The principal methodology used in this rating was [Global Rating Methodology for REITs and Other Commercial Property Firms](#) published in September 2022. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology. The forward-looking scorecard-indicated Baa3 rating is one notch lower than the rating assigned. The one-notch gap illustrates the increased risk of a downgrade in case Atrium fails to take the actions necessary to offset the impact of the deteriorating financial market environment.

Exhibit 16

Rating factors

Atrium Ljungberg AB

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current Q3 2023 (L)		Moody's 12-18 Month Forward View As of 18/12/2023 [3]	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score
a) Gross Assets (USD Billion)	\$5.7	Baa	5.4-5.7	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	57.0%	Ba	56-57%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	41.9%	Baa	43-44%	Baa
b) Net Debt / EBITDA	13.2x	Ca	11-13x	Caa
c) Secured Debt / Gross Assets	14.6%	Baa	16-20%	Baa
d) Fixed Charge Coverage	3.0x	Baa	2.8-3.5x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2022.

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestiture.

Source: Moody's Financial Metrics™

Ratings

Exhibit 17

Category	Moody's Rating
ATRIUM LJUNGBERG AB	
Outlook	Negative
Issuer Rating -Dom Curr	Baa2

Source: Moody's Investors Service

Endnotes

[1](#) JLL Nordic Outlook - Spring 2023.

[2](#) CBRE Research 2023.

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